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ZNR UUUUU ZZH
R 050934Z MAR 06
FM AMEMBASSY KABUL
TO RUEHC/SECSTATE WASHDC 8681
INFO RUCNAFG/AFGHANISTAN COLLECTIVE
RUEHNE/AMEMBASSY NEW DELHI 6816
RUEHIL/AMEMBASSY ISLAMABAD 2849
RUEKJCS/OSD WASHDC
RUEKJCS/JOINT STAFF WASHDC
RHMFISS/CDR USCENTCOM MACDILL AFB FL
RUCNDT/USMISSION USUN NEW YORK 2289
RUEHGV/USMISSION GENEVA 5639
RUEHUNV/USMISSION UNVIE VIENNA 1134
RUEATRS/DEPT OF TREASURY WASHDC
RHEHAAA/NSC WASHDC
RUEAIIA/CIA WASHDC
RHEFDIA/DIA WASHDC
RUCPDOG/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS SECTION 01 OF 03 KABUL 000938

SIPDIS

DEPARTMENT FOR SA/FO, SA/A, EB
TREASURY FOR PARAMESWARAN
NSC FOR AHARRIMAN, KAMEND
CJTF-76 FOR POLAD, CENTCOM FOR CG CFC-A
COMMERCE FOR AADLER
USTDA FOR DSTEIN, SGREENIP

SENSITIVE
SIPDIS

E.O.12958: N/A

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SUBJECT: AMERICAN BUSINESSES IN AFGHANISTAN: HERAT PROVINCE

REF: 05 KABUL 3095

¶1. (U) Summary: Although Herat is Afghanistans second largest commercial center, it remains remote for Western businesses operating in Afghanistan. The few foreign companies present are primarily small traders, including two U.S. firms offering groceries and frozen chicken and eggs. This is the first in a series of reporting cables on U.S.-owned businesses operating in Afghanistan and on the business climate in Herat. End summary.

¶2. (U) While the number of foreign firms registered to do business in Afghanistan grows every month, few companies have yet ventured outside of Kabul. Herat is one of Afghanistans major economic centers (reftel.) However, it remains, in the words of a local business consultant too far a-field for Western companies.

¶3. (U) Herat possesses a solid manufacturing base concentrated in the Herat Industrial Zone. Despite being half Kabuls size, the city is more commercially vibrant, due largely to its proximity to Iran and relatively stable power supply (provided by Iran and Turkmenistan.) Yet very few foreign-owned companies (primarily Iranian, Turkish and Central-Asian) have set-up operations. One small scale and one medium scale U.S.-owned commercial enterprise are profiled below; they are illustrative of the type of U.S.-owned businesses braving Afghanistans Western frontier.

Jacubs Grocery

¶4. (U) Herats first Western-style grocery store opened in September 2005 and business is booming. Located on a busy downtown street, the store is well-stocked with American,

European and Iranian products in self-serve refrigerators and freezers. Owner Jacob returned to Afghanistan from Freemont, California, where he lived for over a quarter century. In his New York Yankees cap and warm-up suit, Jacob admitted that he has not yet been able to blend back into his native culture. His first venture, an internet cafe, failed due to lack of clientele and a poor network connection. The grocery, however, is prospering. Almost all his customers are foreign staff of international organizations operating in Herat. Jacob offers 24-hour service and claims he can procure almost anything upon request. One of the customers in the shop who has lived in Herat for three years told Econoff that most of the goods on sale are not available anywhere else in the city.

15. (SBU) Prices of American and European products, such as cereal, sauces, soft drinks, snack foods and toiletries, are extremely low. A 14 ounce bottle of Gatorade that retails in the U.S. for USD 1.50 was selling for 20 Afs (approximately 40 cents.) Jacob explained that the wholesale price is just 5 Afs (10 cents) at the bazaar outside of the large Bagram Air Force Base north of Kabul. Bagram has a healthy informal market just beyond the wire, and many of the products sold there appear to be from shipments destined for the PX that fell off trucks.

16. (SBU) Jacob supplements his Bagram purchases with goods procured in Pakistan and Iran. He makes bimonthly trips to Iran where he buys six suitcases worth of goods, primarily Iranian products purchased from wholesalers. Afghan

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customs inspectors, he said, never search his vehicle or inspect the packages. If they did, he is certain that a tip of just one dollar would be enough for the inspectors to look the other way. Goods purchased in Pakistan destined for his shop arrive via more formal channels. Jacob places a monthly order through a broker for a container delivered to the Torkum border crossing. It is then forwarded by truck to Herat.

17. (SBU) Jacob acknowledges his business is built on extra-legal activities and claims to have plans to establish a more legitimate supply chain by ordering regular containers from Dubai. He also plans to open a restaurant on the second floor of his grocery to be called HFC - Herat Fried Chicken which will also cater to expatriates.

Summit

18. (SBU) Summit is owned by a Long Island-based businessman and distributes frozen chicken and eggs. Summit began its Afghan operations in 2002 when it shipped its first container load of frozen chicken from Arkansas and South Carolina to Afghanistan via Iran to Herat. (Note: U.S. Department of Treasury regulations prohibit U.S. companies from engaging in transshipment through Iran. End note.) Since late 2004, Summit's sales have increased three-fold and the company has set up a permanent facility in Herat. In mid-2005, Summit obtained an Afghan business license, leased land at the Herat Industrial Park, and built a cold storage facility. Two recently installed freezer units, the only cold storage in the industrial park, are now stacked floor to ceiling with frozen chicken. The warehouse boasts thousands of cartons of American eggs destined for distribution across the country. Summit reportedly imports twenty 40-foot containers each month.

19. (SBU) Company representatives stated that while about half of their product arrives via Pakistan, this route has proved disastrous on many occasions as perishable cargo

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spoiled while the company haggled for its release from customs. Summits representative admitted that while shipment of their product via Iran is hardly ideal, predictable problems (i.e. request for bribes) at the border at Islam Qala is, for now, preferable to the tyranny at the Pakistani border.

¶10. (U) Summit has two small shops in Herat, but distributes the bulk of its products to retailers in Kabul, Jalalabad, Mazar-e-Sharif and Kandahar. The company has also applied for a space in the Bagrami Industrial Park in Kabul (currently fully occupied but slated for possible expansion) and plans to build additional cold storage units both for use in the further expansion of their business and for lease to fresh fruit vendors.

COMMENT

¶11. (SBU) While there may be more impressive examples of foreign direct investment in Afghanistan, these two U.S. companies illustrate the nature of and challenges faced by foreign-owned businesses willing to venture into into Afghanistans Wild West, a challenging environment that

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in the last few months has been further complicated by political and sectarian divisions (septel.) These entrepreneurs have learned to deal with, and even rely on, the Afghan bureaucracy. Although currently dependent on shady practices, both businesses recognize the need to legitimize their operations as they expand. Though insignificant on a macroeconomic scale, the presence of any foreign-owned businesses in Herat is an encouraging sign.

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